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INDEPENDENT AUDITOR'S REPORT

The Board of Directors Bowdle Hospital and Nursing Home Bowdle, South Dakota

We have audited the accompanying balance sheets of **Bowdle Hospital and Nursing Home**, an enterprise fund of the City of Bowdle, South Dakota, as of December 31, 2008 and 2007 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only **Bowdle Hospital and Nursing Home**, an enterprise fund of the City of Bowdle, South Dakota, and are not intended to present fairly the financial position of the City of Bowdle, South Dakota, and the results of the revenues, expenses and changes in net assets, and cash flows of its proprietary and similar fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Bowdle Hospital and Nursing Home**, an enterprise fund of the City of Bowdle, SD, as of December 31, 2008 and 2007, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 2, 2009 on our consideration of Bowdle Hospital and Nursing Home's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

Ela Bailly Let

Sioux Falls, South Dakota June 2, 2009

BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

CURRENT ASSETS		2008	2007
Cash and cash equivalents \$ 493,763 \$ 604,295 Cash - resident trust fund 643 641 Current portion of restricted cash 79,213 81,212 Receivables 8 79,213 81,212 Patient and resident, net of estimated uncollectibles of \$495,000 in 2008 and \$370,000 in 2007 472,354 389,506 Estimated third party payor settlements 120,000 50,000 Other - 3,869 Supplies 101,707 112,152 Prepaid expenses 1,101 3,852 Total current assets 1,268,781 1,245,527 NONCURRENT CASH 11,265 12,482 Restricted under indenture agreements 74,427 128,000 Restricted under indenture agreements 74,427 128,000 By donors for capital improvements 5,616 5,566 Total noncurrent restricted cash and investments 91,308 146,138 CAPITAL ASSETS 6,000 6,000 Land 6,000 6,000 Deferred financing costs, net of accumulated amortization of \$3,410 in 2008 and \$2,652 in 20	ASSETS		
Cash and cash equivalents \$ 493,763 \$ 604,295 Cash - resident trust fund 643 641 Current portion of restricted cash 79,213 81,212 Receivables Patient and resident, net of estimated uncollectibles of \$495,000 in 2008 and \$370,000 in 2007 472,354 389,506 Estimated third party payor settlements 120,000 50,000 Other - 3,869 Supplies 101,707 112,152 Prepaid expenses 1,101 3,852 Total current assets 1,268,781 1,245,527 NONCURRENT CASH Internally designated for capital acquisitions 11,265 12,482 Restricted under indenture agreements 74,427 128,090 By donors for capital improvements 5,616 5,566 Total noncurrent restricted cash and investments 91,308 146,138 CAPITAL ASSETS 6,000 6,000 Depreciable capital assets, net of accumulated depreciation 1,631,282 1,579,130 OTHER ASSETS 1,600,000 8,147 8,905 Discount on certificates of	CUIDDENIT ACCETS		
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Current portion of restricted cash Receivables 79,213 81,212 Patient and resident, net of estimated uncollectibles of \$495,000 in 2008 and \$370,000 in 2007 472,354 389,506 Estimated third party payor settlements 120,000 50,000 Other 3,869 Supplies 101,707 112,152 Prepaid expenses 1,101 3,852 Total current assets 1,268,781 1,245,527 NONCURRENT CASH 11,265 12,482 Internally designated for capital acquisitions 11,265 12,482 Restricted under indenture agreements 74,427 128,090 By donors for capital improvements 5,616 5,566 Total noncurrent restricted cash and investments 91,308 146,138 CAPITAL ASSETS 6,000 6,000 Depreciable capital assets, net of accumulated depreciation 1,631,282 1,585,130 OTHER ASSETS Deferred financing costs, net of accumulated amortization of \$3,410 in 2008 and \$2,652 in 2007 8,147 8,905 Discount on certificates of participation, net of accumulated amortization of \$6,012 in 2008 and \$4,676 in 2007 14,363 15,6		,	
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Internally designated for capital acquisitions 11,265 12,482 Restricted under indenture agreements 74,427 128,090 By donors for capital improvements 5,616 5,566 Total noncurrent restricted cash and investments 91,308 146,138 CAPITAL ASSETS Land 6,000 6,000 Depreciable capital assets, net of accumulated depreciation 1,625,282 1,579,130 Total capital assets, net of accumulated depreciation 1,631,282 1,585,130 OTHER ASSETS Deferred financing costs, net of accumulated amortization of \$3,410 in 2008 and \$2,652 in 2007 8,147 8,905 Discount on certificates of participation, net of accumulated amortization of \$6,012 in 2008 and \$4,676 in 2007 14,363 15,699 Total other assets 22,510 24,604	Total current assets	1,268,781	1,245,527
Internally designated for capital acquisitions 11,265 12,482 Restricted under indenture agreements 74,427 128,090 By donors for capital improvements 5,616 5,566 Total noncurrent restricted cash and investments 91,308 146,138 CAPITAL ASSETS Land 6,000 6,000 Depreciable capital assets, net of accumulated depreciation 1,625,282 1,579,130 Total capital assets, net of accumulated depreciation 1,631,282 1,585,130 OTHER ASSETS Deferred financing costs, net of accumulated amortization of \$3,410 in 2008 and \$2,652 in 2007 8,147 8,905 Discount on certificates of participation, net of accumulated amortization of \$6,012 in 2008 and \$4,676 in 2007 14,363 15,699 Total other assets 22,510 24,604	NO YOUR DELYE GARAGE		
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Total noncurrent restricted cash and investments 91,308 146,138 CAPITAL ASSETS Land 6,000 6,000 Depreciable capital assets, net of accumulated depreciation 1,625,282 1,579,130 Total capital assets, net of accumulated depreciation 1,631,282 1,585,130 OTHER ASSETS Deferred financing costs, net of accumulated amortization of \$3,410 in 2008 and \$2,652 in 2007 8,147 8,905 Discount on certificates of participation, net of accumulated amortization of \$6,012 in 2008 and \$4,676 in 2007 14,363 15,699 Total other assets 22,510 24,604	—		•
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Land Depreciable capital assets, net of accumulated depreciation Total capital assets, net of accumulated depreciation Total capital assets, net of accumulated depreciation Total capital assets, net of accumulated depreciation OTHER ASSETS Deferred financing costs, net of accumulated amortization of \$3,410 in 2008 and \$2,652 in 2007 Discount on certificates of participation, net of accumulated amortization of \$6,012 in 2008 and \$4,676 in 2007 Total other assets 22,510 6,000 1,625,282 1,579,130 1,585,130 8,905 1,585,130 24,604	Total noncurrent restricted cash and investments	91,308	146,138
Depreciable capital assets, net of accumulated depreciation Total capital assets, net of accumulated depreciation 1,625,282 1,579,130 Total capital assets, net of accumulated depreciation 1,631,282 1,585,130 OTHER ASSETS Deferred financing costs, net of accumulated amortization of \$3,410 in 2008 and \$2,652 in 2007 Discount on certificates of participation, net of accumulated amortization of \$6,012 in 2008 and \$4,676 in 2007 Total other assets 22,510 24,604	CAPITAL ASSETS		
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OTHER ASSETS Deferred financing costs, net of accumulated amortization of \$3,410 in 2008 and \$2,652 in 2007 Discount on certificates of participation, net of accumulated amortization of \$6,012 in 2008 and \$4,676 in 2007 Total other assets 22,510 24,604	Depreciable capital assets, net of accumulated depreciation	1,625,282	1,579,130
Deferred financing costs, net of accumulated amortization of \$3,410 in 2008 and \$2,652 in 2007 8,147 8,905 Discount on certificates of participation, net of accumulated amortization of \$6,012 in 2008 and \$4,676 in 2007 14,363 15,699 Total other assets 22,510 24,604	Total capital assets, net of accumulated depreciation	1,631,282	1,585,130
Deferred financing costs, net of accumulated amortization of \$3,410 in 2008 and \$2,652 in 2007 8,147 8,905 Discount on certificates of participation, net of accumulated amortization of \$6,012 in 2008 and \$4,676 in 2007 14,363 15,699 Total other assets 22,510 24,604	OTHER AGGETS		
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net of accumulated amortization of \$6,012 in 2008 and \$4,676 in 2007		0,147	0,903
in 2008 and \$4,676 in 2007			
Total other assets 22,510 24,604	•	14 363	15 600
	111 2000 and \$7,070 m 2007	14,303	13,077
	Total other assets	22 510	24 604
Total assets \$ 3,013,881 \$ 3,001,399	i otal other assets	<u> </u>	27,007
	Total assets	\$ 3,013,881	\$ 3,001,399

		<u> </u>	
	2008	2007	
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES Due to City of Bowdle Current maturities of long-term debt Accounts payable Accrued expenses	\$ 50,894 99,786 134,171	\$ 133,211 57,374 61,742	
Salaries and wages Compensated absences Interest Payroll taxes and other Resident trust fund Deferred grant revenue	124,351 50,811 9,503 16,105 643 32,701	119,898 68,079 8,313 15,073 641 32,928	
Total current liabilities	518,965	497,259	
LONG-TERM DEBT, less current maturities	759,796	621,938	
OTHER LONG TERM LIABILITIES Compensated absences	37,097	9,048	
Total liabilities	1,315,858	1,128,245	
NET ASSETS Invested in capital assets, net of related debt Restricted For debt service Expendable for capital improvements Unrestricted Total net assets	771,700 73,132 5,616 847,575 1,698,023	905,818 21,405 5,566 940,365 1,873,154	
Total liabilities and net assets	\$ 3,013,881	\$ 3,001,399	

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
OPERATING REVENUES		
Net patient and resident service revenue (net of provisions		
for bad debt of \$126,225 in 2008 and \$134,539 in 2007)	\$ 3,629,702	\$ 3,501,744
Other revenue	23,008	34,817
Total revenues, gains, and other support	3,652,710	3,536,561
OPERATING EXPENSES		
Salaries and wages	1,854,644	1,785,239
Employee benefits	420,021	249,983
Supplies and other expenses	1,208,117	1,267,853
Depreciation and amortization	242,585	208,273
Insurance	88,576	75,082
Total expenses	3,813,943	3,586,430
OPERATING LOSS	(161,233)	(49,869)
NONOPERATING REVENUES (EXPENSES)		
Interest income	8,284	20,447
Interest expense	(44,141)	(45,747)
Noncapital grants and contributions	16,759	13,306
Gain on disposal of assets	200	
Net nonoperating expenses	(18,898)	(11,994)
EXCESS OF EXPENSES OVER REVENUES	(180,131)	(61,863)
CAPITAL GRANTS AND CONTRIBUTIONS		
Grants for equipment purchases	5,000	60,000
DECREASE IN NET ASSETS	(175,131)	(1,863)
NET ASSETS, BEGINNING OF YEAR	1,873,154	1,875,017
NET ASSETS, END OF YEAR	\$ 1,698,023	\$ 1,873,154

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

OPERATING ACTIVITIES Cash received from patient and resident services Cash paid to employees for services Cash paid to City of Bowdle for goods and services Cash paid to suppliers for goods and services Other operating revenue	2008 \$ 3,476,856 (2,254,530) (4,536) (1,288,849) 22,781	2007 \$ 3,675,078 (2,042,565) (5,598) (1,805,130) 67,745
NET CASH USED FOR OPERATING ACTIVITIES	(48,278)	(110,470)
NON-CAPITAL FINANCING ACTIVITIES Noncapital grants and contributions	16,759	13,306
CAPITAL AND RELATED FINANCING ACTIVITIES Purchases of property and equipment Capital grants and contributions Proceeds from notes payable Principal paid on long-term debt Interest paid on long-term debt Proceeds from sale of equipment	(186,643) 5,000 150,477 (70,207) (42,951) 200	(107,069) 60,000 - (56,715) (46,246)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(144,124)	(150,030)
INVESTING ACTIVITIES Interest on investments Sales of investments	8,284	23,284 300,000
NET CASH FROM INVESTING ACTIVITIES	8,284	323,284
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	(167,359) 832,286	76,090 756,196
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 664,927	\$ 832,286

	2008		2007	
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEETS Cash and cash equivalents in current assets Cash - resident trust fund Current portion of restricted cash Noncurrent restricted cash	\$	493,763 643 79,213 91,308	\$	604,295 641 81,212 146,138
TOTAL CASH AND CASH EQUIVALENTS	\$	664,927	\$	832,286
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES Operating income (loss) Adjustments to reconcile operating loss to net cash from operating activities	\$	(161,233)	\$	(49,869)
Depreciation Amortization		240,491 2,094		206,179 2,094
Changes in assets and liabilities Receivables Inventory Prepaid expenses Accounts payable Accrued expenses Resident trust funds Deferred revenue		(148,979) 10,445 2,751 (9,888) 16,266 2 (227)		172,893 10,372 (2,468) (475,697) (7,543) 641 32,928
NET CASH USED FOR OPERATING ACTIVITIES	\$	(48,278)	\$	(110,470)
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITY				
Property and equipment financed by capital lease		100,000	\$	

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Bowdle Hospital and Nursing Home (Facility) operates a 12-bed hospital, a 28-bed nursing home and several clinics. The Facility is owned and operated as an enterprise fund of the City of Bowdle, South Dakota. These financial statements present only the operations of the Facility, and do not include any other operations of the city of Bowdle.

Enterprise Fund Accounting

Pursuant to Government Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting, the Facility has applied the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The financial statements have been presented in accordance with generally accepted accounting principles as promulgated by GASB and as recommended in the Audit and Accounting Guide for Health Care Organizations published by the American Institute of Certified Public Accountants.

Proprietary Fund Accounting

The Facility utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

The Facility's operating revenues and expenses generally result from providing healthcare services. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Facility's policy to use restricted assets first, then unrestricted assets as they are needed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with a maturity of three months or less.

Patient and Resident Receivables

Patient and resident receivables are uncollateralized customer and third-party payor obligations. The Facility reserves the right to assess interest on unpaid patient and resident receivables, excluding amounts due from third-party payors.

Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and residents and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

Supplies

Supplies are stated at lower of cost (first in, first out) or market.

Investments and Investment Income

Investments with readily determinable fair values are measured at fair value in the balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of expenses over revenue unless the income or loss is restricted by donor or law.

These assets are governed by state law (SDCL 4-5-6) which sets forth eligible deposits and investments for the facility. Allowable deposits and investments include:

- a. Securities issued by the United States Treasury
- b. Securities issued by government-sponsored enterprises (GSE's) or federally related institutions that are guaranteed directly or indirectly by the U.S. Government (U.S. Agencies)
- c. Mutual and money market funds that invest in (a) or (b)
- d. Repurchase agreements fully collateralized by (a) or (b)
- e. Certificates of Deposits (100% collateralized)
- f. Deposits and savings accounts (100% collateralized)

Capital Assets

Capital asset acquisitions in excess of \$5,000 for the hospital and \$1,500 for the nursing home are capitalized and recorded at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these assets lives:

Land improvements	3-15 years
Buildings and improvements	5-40 years
Equipment	5-20 years

Deferred Financing Costs

Deferred financing costs are amortized over the period the related obligation is outstanding using the straight-line method.

Grants and Contributions

From time to time, the Facility receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted for an operating purpose are reported as other revenue, unrestricted amounts are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Excess of Expenses over Revenues

Excess of expenses over revenues excludes transfers of assets to and from related parties for other than goods and services, and contributions of long-lived assets, including assets acquired using contributions which were restricted by donors.

Net Assets

Net assets are presented in the following components:

Invested in Capital Assets – Invested in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted – Noncapital net assets that must be used for specific purposes as specified by creditors, grantors, or contributors external to the Facility.

Unrestricted – Unrestricted net assets are remaining net assets that do not meet the definition of "invested in capital assets" or "restricted."

Net Patient and Resident Service Revenue

The Facility has agreements with third-party payors that provide for payments to the Facility at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Facility provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Facility does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient and resident service revenue.

Risk Management

The Facility is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. Medical malpractice insurance is discussed in Note 12.

Compensated Absences

The Facility has a paid-time-off (PTO) program that allows employees to earn vacation benefits based on length of service. Employees may accumulate PTO up to a specified maximum. Employees are paid for accumulated PTO if employment is terminated.

Advertising Costs

The Facility expenses advertising costs as incurred.

Reclassifications

Certain items in the prior year financial statements have been reclassified for comparability purposes with the current year financial statements. These reclassifications did not affect the financial position or results of operations as previously reported.

NOTE 2 - CHARITY CARE

The Facility maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The amounts of charges foregone, based on established rates, were \$2 and \$615 for the years ended December 31, 2008 and 2007.

NOTE 3 - NET PATIENT AND RESIDENT SERVICE REVENUE

The Facility has agreements with third-party payors that provide for payments to the Facility at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare The Facility is licensed as a Critical Access Hospital (CAH). The Facility is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Facility and are subject to audits thereof by the Medicare intermediary. The Facility's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended December 31, 2006. The Facility's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Facility.

<u>Medicaid</u> Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid on a percentage of charges methodology.

<u>Blue Cross</u> Services rendered to Blue Cross subscribers are reimbursed under a prospectively determined percentage of charges methodology.

<u>Nursing Home</u> The Facility is reimbursed for resident services at established billing rates which are determined on a cost-related basis subject to certain limitations as prescribed by South Dakota Department of Human Services regulations. These rates are subject to retroactive adjustment by field audit. The Facility also participates in the Medicare program for which payment for resident services is made on a prospectively determined per diem rate which varies based on a case-mix resident classification system.

The Facility has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Facility under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of patient and resident service revenue and contractual adjustments for the years ended December 31, 2008 and 2007 is as follows:

	2008	2007
Total patient and resident service revenue	\$ 4,657,829	\$ 4,356,467
Contractual adjustments		
Medicare	732,905	590,389
Medicaid	53,679	23,467
Other	115,318	106,328
Provision for bad debts	126,225	134,539
Total contractual adjustments and bad debts	1,028,127	854,723
Net patient and resident service revenue	\$ 3,629,702	\$ 3,501,744

NOTE 4 - DESIGNATED NET ASSETS

Of the \$847,575 and \$940,365 of unrestricted net assets reported in 2008 and 2007, respectively, \$11,265 and \$12,482 have been designated by the Facility's Board of Directors for capital acquisitions. Designated fund remain under the control of the Board of Directors, which may at its discretion later use the funds for other purposes.

NOTE 5 - RESTRICTED NET ASSETS

The Facility has received support from donors that have limited the use of the donated assets for a specific purpose. The composition of these restricted assets at December 31, 2008 and 2007 is set forth in the following table. These assets are stated at fair value.

	 2008		2007
By donors for capital improvements			
Cash and cash equivalents	\$ 5,616	\$	5,566

NOTE 6 - DEPOSITS AND INVESTMENTS

South Dakota statutes require that all municipal deposits are made in qualified public depositories, and that these depositories maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as FDIC and NCUA. As of December 31, 2008 and 2007, all of the Facility's deposits were secured in accordance with these provisions.

Interest Rate Risk

The Facility does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit Risk

Investments – In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the Unites States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no load funds administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b).

Concentration of Credit Risk

The Facility places no limit on the amount it may invest in any one issuer. The carrying amounts of deposits are included in the Facility's balance sheets as follows:

	2008		2007	
Carrying amount	•	((1.005	Φ.	022.206
Deposits	<u>\$</u>	664,927		832,286
Included in the following balance sheet captions				
Cash and cash equivalents	\$	493,763	\$	604,295
Cash - resident trust fund		643		641
Current restricted cash		79,213		81,212
Noncurrent cash		91,308		146,138
	\$	664,927	\$	832,286

NOTE 7 - CAPITAL ASSETS

A summary of property and equipment at December 31, 2008 and 2007 follows:

	December 31, 2007	Additions	Deductions	December 31, 2008
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Land improvements	390,456	- -	-	390,456
Buildings	2,259,921	19,723	-	2,279,644
Fixed equipment	879,678	2,625	-	882,303
Capitalized leases	32,300	250,477	-	282,777
Equipment	1,457,980	13,818		1,471,798
Totals at historical cost	5,026,335	286,643		5,312,978
Less accumulated depreciation	n:	,		
Land improvements	287,110	12,423	-	299,533
Buildings	1,290,524	58,792	-	1,349,316
Fixed equipment	581,520	31,593	-	613,113
Capitalized leases	22,750	48,066	-	70,816
Equipment	1,259,301	89,617		1,348,918
Total accumulated depreciation	3,441,205	240,491	_	3,681,696
-			\$ -	\$ 1,631,282
Capital assets, net	\$ 1,585,130	\$ 46,152	Ψ -	
	December 31, 2006	Additions	Deductions	December 31, 2007
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Land improvements	378,556	11,900	-	390,456
Buildings	2,259,921	-	-	2,259,921
Fixed assets	870,565	9,113	-	879,678
Capitalized leases	32,300	_	-	32,300
Equipment	1,371,922	86,058	_	1,457,980
Totals at historical cost	4,919,264	107,071		5,026,335
Less accumulated depreciation	n:			
Land improvements	273,818	13,292	-	287,110
Buildings	1,226,274	64,250	-	1,290,524
Fixed assets	532,020	49,500	-	581,520
Capitalized leases	16,150	6,600		22,750
Equipment	1,186,764	72,537	-	1,259,301
Total accumulated				
depreciation	3,235,026	206,179	-	3,441,205
Capital assets, net	\$ 1,684,238	\$ (99,108)	\$ -	\$ 1,585,130

NOTE 8 - LONG-TERM DEBT				
			2008	2007
Long-term debt consists of:				
Certificates of Participation Series Bonds maturing in increasing increments on October 1 of each year, with final maturity on October 1, 2019. Interest is payable semi-annually on April 1 and October 1. The interest rates range from 4.0% to 5.5% based on maturity			\$ 620,000	\$ 670,000
Note Payable Due in monthly installments of \$2,876 including 5.52% interest to October 2013			146,100	-
Capitalized lease payable, payments due in monthly installments of \$654 through March 2009, which includes interest of 7.95%			1,937	9,312
Capitalized lease payable, payments due in monthly installments of \$2,643 through August 2012, which includes interest of 13.35%			91,545	(70.212
Less current maturities			859,582 (99,786)	 679,312 (57,374)
Long-term debt, less current maturities			\$ 759,796	\$ 621,938
Future maturities of long-term debt are as follows:				
	P	Principal	 Interest	 Total
2009 2010 2011 2012 2013 2014 - 2018 2019 - 2020	\$	99,786 102,327 107,311 102,115 78,043 300,000 70,000	\$ 49,645 43,041 35,858 28,033 22,764 68,500 3,850	\$ 149,431 145,368 143,169 130,148 100,807 368,500 73,850
Total	\$	859,582	\$ 251,691	\$ 1,111,273

	Balance cember 31, 2007	N	lew Debt	P	rincipal Paid	Balance cember 31, 2008	in F	cipal Due iscal Year Ending ember 31, 2009
Certificates of participation Notes payable Capitalized leases	\$ 670,000 9,312	\$	150,477 100,000	\$	(50,000) (4,377) (15,830)	\$ 620,000 146,100 93,482	\$	50,000 27,123 22,663
	 679,312	\$	250,477	\$	(70,207)	\$ 859,582	\$	99,786
	Balance cember 31, 2006	N	lew Debt	. F	Principal Paid	Balance cember 31, 2007	in F	cipal Due iscal Year Ending ember 31, 2008
Certificates of participation Capitalized lease	\$ 720,000 16,027	\$	-	\$	(50,000) (6,715)	\$ 670,000 9,312	\$	50,000 7,374
	\$ 736,027	\$		\$	(56,715)	 679,312	\$	57,374

Substantially all of the assets of the Facility have been pledged as collateral for these debt obligations. In addition, under the terms of the certificate of participation indenture, the Facility is required to maintain certain deposits with a trustee. Such deposits are included with restricted cash in the balance sheet.

NOTE 9 - LEASES

The Facility leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended December 31, 2008 and 2007 for all operating leases was \$32,851 and \$36,563. The Capitalized leased assets consist of:

	 2008		2007	
Major moveable equipment Less accumulated amortization (included as depreciation on the accompanying	\$ 132,300	\$	32,300	
financial statements)	 (45,737)		(22,610)	
	\$ 86,563	\$	9,690	

Minimum future lease payments for the capital and operating leases are as follows:

Year Ending December 31,	 Capital			
2009	\$ 33,674	\$	21,496	
2010	31,710		-	
2011	31,710		-	
2012	 21,140			
Total lease payments	118,234	\$	21,496	
Less interest	 (24,752)			
Present value of minimum lease payments	\$ 93,482			

NOTE 10 - CONCENTRATION OF CREDIT RISK

The Facility grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients and residents at December 31, 2008 and 2007 was as follows:

	2008	2007
Medicare	38%	36%
Medicaid	13%	13%
Commercial	17%	21%
Other third party payors and patients	32%	30%
	100%_	100%

NOTE 11 - FUNCTIONAL EXPENSES

The Facility provides health care services to residents within its geographic location. Expenses related to providing these services by functional class for the years ended December 31, 2008 and 2007 are as follows:

	 2008	 2007
Patient and resident health care services General and administrative	\$ 3,585,267 228,676	\$ 3,314,625 271,805
	\$ 3,813,943	\$ 3,586,430

NOTE 12 - CONTINGENCIES

Liability Insurance

The Facility purchases liability insurance for risks related to torts and theft or damage to property from a commercial insurance carrier.

(continued on next page)

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Malpractice Insurance

The Facility has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Workmen's Compensation

The Facility purchases liability insurance for workmen's compensation from a commercial carrier.

Unemployment Benefits

The Facility provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors Bowdle Hospital and Nursing Home Bowdle, South Dakota

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ela Baily ut

Sioux Falls, South Dakota June 2, 2009

SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
PATIENT AND RESIDENT SERVICE REVENUE		
Room/board	\$ 731,250	\$ 712,307
Observation	48,714	32,468
Nursing home	1,050,791	1,063,470
Assisted living room	84,053	82,613
Operating rooms	111,350	85,500
Central services and supply	120,961	115,803
Emergency services	231,003	167,153
Laboratory	573,490	664,303
EKG	66,863	57,420
EEG	750	-
Radiology	354,690	257,840
Pharmacy	460,906	403,277
Respiratory therapy	31,554	23,855
Physical therapy	68,042	86,122
Occupational therapy	36,618	26,233
Cardiac rehab	20,598	26,930
Ambulance	108,398	50,677
Home health	54,491	3,089
Homemaker services	, <u>-</u>	62,097
Bowdle Clinic	393,627	313,078
Hosmer Clinic	20,650	15,614
Roscoe Clinic	22,675	29,734
Public health	66,357	77,499
Charity care	(2)	(615)
Total patient and resident service revenue	4,657,829	4,356,467
CONTRACTUAL ADJUSTMENTS AND BAD DEBTS		
Medicare	732,905	590,389
Medicaid	53,679	23,467
Other	115,318	106,328
Provision for bad debts	126,225	134,539
Total contractual adjustments and bad debts	1,028,127	854,723
NET PATIENT AND RESIDENT SERVICE REVENUE	\$ 3,629,702	\$ 3,501,744

SCHEDULES OF OTHER REVENUE

YEARS ENDED DECEMBER 31, 2008 AND 2007

	 2008	 2007
OTHER REVENUE		
Grant revenue	\$ 13,295	\$ 4,952
Wellness dues	1,562	23,789
Rentals	_	200
Other	 8,151	 5,876
TOTAL OTHER REVENUE	\$ 23,008	\$ 34,817

SCHEDULES OF EXPENSES

YEARS ENDED DECEMBER 31, 2008 AND 2007

Supplies and other expenses 33,354 36,69 NURSING HOME 339,07 Salaries and wages 695,565 731,98 Supplies and other expenses 242,720 237,35 OPERATING ROOMS 938,285 969,33 Salaries and wages 4,193 2,76 Supplies and other expenses 16,283 6,40 CENTRAL SERVICES AND SUPPLY 20,476 9,17 CENTRAL SERVICES AND SUPPLY 5,682 5,80 Supplies and other expenses 11,783 12,75 EMERGENCY SERVICES 38,418 75 Salaries and wages 38,418 75 Supplies and other expenses 102,075 129,71 LABORATORY 140,493 130,46 LABORATORY 80,151 76,00 Supplies and other expenses 178,813 192,40 ELECTROCARDIOLOGY 258,964 268,41 ELECTROCARDIOLOGY 4,928 2,97 RADIOLOGY Supplies and other expenses 4,928 2,97 RADIOLOGY 9,6,233 7,766		2008	2007
NURSING HOME Salaries and wages 695,565 731,98 Supplies and other expenses 242,720 237,35 OPERATING ROOMS Salaries and wages 4,193 2,76 Supplies and other expenses 16,283 6,40 CENTRAL SERVICES AND SUPPLY 3 20,476 9,17 CENTRAL SERVICES AND SUPPLY 5,682 5,882 5,80 20,276 11,783 12,75 EMERGENCY SERVICES 311,783 12,75 18,55 11,783 12,75 129,71	Salaries and wages	\$ 383,225	\$ 302,380 36,698
Salaries and wages 695,565 731,98 Supplies and other expenses 242,720 237,35 OPERATING ROOMS Salaries and wages 4,193 2,76 Supplies and other expenses 16,283 6,40 CENTRAL SERVICES AND SUPPLY Salaries and wages 5,682 5,80 Supplies and other expenses 11,783 12,75 EMERGENCY SERVICES Salaries and wages 38,418 75 Supplies and other expenses 102,075 129,71 LABORATORY 140,493 130,46 LABORATORY 80,151 76,00 Supplies and other expenses 80,151 76,00 Supplies and other expenses 178,813 192,40 ELECTROCARDIOLOGY 258,964 268,41 ELECTROCARDIOLOGY 4,928 2,97 RADIOLOGY 3 2,97 Salaries and wages 4,928 2,97 Supplies and other expenses 4,928 2,97 RADIOLOGY 3 7,60 Supplies and other expenses 96,233 77,60 <td></td> <td>416,579</td> <td>339,078</td>		416,579	339,078
OPERATING ROOMS 4,193 2,76 Sularies and wages 16,283 6,40 20,476 9,17 CENTRAL SERVICES AND SUPPLY 20,476 9,17 Salaries and wages 5,682 5,80 Supplies and other expenses 11,783 12,75 EMERGENCY SERVICES 17,465 18,55 EMERGENCY SERVICES 38,418 75 Supplies and other expenses 102,075 129,71 LABORATORY 140,493 130,46 LABORATORY 80,151 76,00 Supplies and other expenses 178,813 192,40 ELECTROCARDIOLOGY 258,964 268,41 ELECTROCARDIOLOGY 30,915 7,60 Supplies and other expenses 4,928 2,97 RADIOLOGY 30,000 41,045 29,77 Supplies and other expenses 96,233 77,66	Salaries and wages	· · · · · · · · · · · · · · · · · · ·	731,983 237,353
Salaries and wages 4,193 2,76 Supplies and other expenses 16,283 6,40 20,476 9,17 CENTRAL SERVICES AND SUPPLY Salaries and wages Supplies and other expenses 11,783 12,75 EMERGENCY SERVICES Salaries and wages 38,418 75 75 Supplies and other expenses 102,075 129,71 LABORATORY Supplies and other expenses 178,813 192,40 258,964 268,41 ELECTROCARDIOLOGY Supplies and other expenses 4,928 2,97 RADIOLOGY Salaries and wages 41,045 29,77 Supplies and other expenses 96,233 77,66 96,233 77,66 		938,285	969,336
CENTRAL SERVICES AND SUPPLY 5,682 5,802 5,802 5,802 5,802 5,802 5,802 5,802 5,802 5,802 5,802 5,802 5,802 5,802 5,802 5,802 5,802 5,602 12,755 12,755 12,755 18,555 17,465 18,555 18,555 18,555 18,555 18,555 129,71 <td>Salaries and wages</td> <td>•</td> <td>2,766 6,406</td>	Salaries and wages	•	2,766 6,406
Salaries and wages 5,682 5,80 Supplies and other expenses 11,783 12,75 EMERGENCY SERVICES Salaries and wages 38,418 75 Supplies and other expenses 102,075 129,71 LABORATORY 140,493 130,46 LABORATORY 80,151 76,00 Supplies and other expenses 178,813 192,40 ELECTROCARDIOLOGY 258,964 268,41 ELECTROCARDIOLOGY 4,928 2,97 RADIOLOGY 41,045 29,77 Salaries and wages 41,045 29,77 Supplies and other expenses 96,233 77,66		20,476	9,172
EMERGENCY SERVICES 38,418 75 Salaries and wages 102,075 129,71 LABORATORY 140,493 130,46 LABORATORY 80,151 76,00 Supplies and other expenses 178,813 192,40 ELECTROCARDIOLOGY 258,964 268,41 Supplies and other expenses 4,928 2,97 RADIOLOGY 30,151 76,00 76,00 Salaries and wages 4,928 2,97 Supplies and other expenses 41,045 29,77 Supplies and other expenses 96,233 77,66	Salaries and wages	· · · · · · · · · · · · · · · · · · ·	5,803 12,755
Salaries and wages 38,418 75 Supplies and other expenses 102,075 129,71 LABORATORY 140,493 130,46 Salaries and wages 80,151 76,00 Supplies and other expenses 178,813 192,40 ELECTROCARDIOLOGY 258,964 268,41 Supplies and other expenses 4,928 2,97 RADIOLOGY 32,97 33,00 30,00 Salaries and wages 41,045 29,77 Supplies and other expenses 96,233 77,66		17,465_	18,558
LABORATORY 80,151 76,00 Supplies and other expenses 178,813 192,40 ELECTROCARDIOLOGY 258,964 268,41 Supplies and other expenses 4,928 2,97 RADIOLOGY 30,151 70,00 Supplies and other expenses 41,045 29,77 Supplies and other expenses 96,233 77,66	Salaries and wages	· · · · · · · · · · · · · · · · · · ·	751 129,712
Salaries and wages 80,151 76,00 Supplies and other expenses 178,813 192,40 ELECTROCARDIOLOGY 258,964 268,41 Supplies and other expenses 4,928 2,97 RADIOLOGY 3 41,045 29,77 Supplies and other expenses 96,233 77,66		140,493	130,463
ELECTROCARDIOLOGY Supplies and other expenses RADIOLOGY Salaries and wages Supplies and other expenses 4,928 2,97 4,928 2,97 41,045 29,77 5 upplies and other expenses 96,233 77,66	Salaries and wages		76,007 192,404
Supplies and other expenses 4,928 2,97 RADIOLOGY Salaries and wages 41,045 29,77 Supplies and other expenses 96,233 77,66		258,964	268,411
Salaries and wages 41,045 29,77 Supplies and other expenses 96,233 77,66		4,928	2,975
127 270 107 42	Salaries and wages		29,773 77,665
157,276 107,43		137,278	107,438

SCHEDULES OF EXPENSES (continued)

	2008	2007
PHARMACY Supplies and other expenses	\$ 117,037	\$ 159,006
RESPIRATORY THERAPY Supplies and other expenses	19,839	17,494
PHYSICAL THERAPY Salaries and wages Supplies and other expenses	2,940 52,473	3,575 46,149
	55,413	49,724
OCCUPATIONAL THERAPY Supplies and other expenses	52,631	35,634
CARDIAC REHAB Salaries and wages Supplies and other expenses	4,713 374	6,310 304
	5,087	6,614
AMBULANCE Salaries and wages Supplies and other expenses	26,252 11,758 38,010	21,551 23,281 44,832
HOME HEALTH Salaries and wages Supplies and other expenses	33,631 4,482	45,576 8,242
BOWDLE CLINIC Salaries and wages	227,576 48,087	53,818 208,982 32,092
Supplies and other expenses	275,663	241,074
HOSMER CLINIC Salaries and wages Supplies and other expenses	18,162 6,228	17,346 10,441
	24,390	27,787

SCHEDULES OF EXPENSES (continued)

· · · · · · · · · · · · · · · · · · ·		
	2008	2007
ROSCOE CLINIC	0 05.555	e 21.002
Salaries and wages	\$ 25,575	\$ 31,203
Supplies and other expenses	11,750	21,619
	37,325	52,822
PUBLIC HEALTH		
Salaries and wages	32,925	32,142
Supplies and other expenses	7,679	6,863
	40,604	39,005
MEDICAL RECORDS		
Salaries and wages	33,428	32,994
Supplies and other expenses	1,252	831
	34,680	33,825
DIETARY		
Salaries and wages	16,171	21,023
Supplies and other expenses	15,034	10,660
	31,205	31,683
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	29,455	27,272
Supplies and other expenses	67,255	72,843
	96,710	100,115
HOUSEKEEPING		
Salaries and wages	23,406	33,105
Supplies and other expenses	6,662	6,507
	30,068	39,612
I ALDIDDA AND I DIENI		
LAUNDRY AND LINEN Supplies and other expenses	1,030	562
SOCIAL SERVICES		
Salaries and wages	1,777	2,205
Supplies and other expenses	35	44
	1,812	2,249

SCHEDULES OF EXPENSES (continued)

	2008	2007
ADMINISTRATIVE SERVICES Salaries and wages Supplies and other expenses	\$ 130,354 98,322	\$ 150,044 121,761
	228,676	271,805
UNASSIGNED EXPENSES		
Depreciation and amortization	242,585	208,273
Insurance	88,576	75,082
Employee benefits	420,021	249,983
	751,182	533,338
Total expenses	\$ 3,813,943	\$ 3,586,430



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors Bowdle Hospital and Nursing Home Bowdle, South Dakota

We have audited the financial statements of Bowdle Hospital and Nursing Home, an enterprise fund of the City of Bowdle, South Dakota, as of and for the year ended December 31, 2008, and have issued our report thereon dated June 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bowdle Hospital and Nursing Home's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bowdle Hospital and Nursing Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bowdle Hospital and Nursing Home's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as findings 05-1 and 06-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entities internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bowdle Hospital and Nursing Home, an enterprise fund of the City of Bowdle, South Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standard* and is described in the accompanying schedule of findings and questioned costs as described in Finding 05-3.

We also noted certain additional matters that we reported to management of Bowdle Hospital and Nursing Home, an Enterprise fund of the City of Bowdle, South Dakota, in a separate letter dated June 2, 2009.

Bowdle Hospital and Nursing Home's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Bowdle Hospital and Nursing Home's responses and, accordingly we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, and the Bowdle City Council. However, this report is a matter of public record and its distribution is not limited.

Sioux Falls, South Dakota

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June 2, 2009

STATEMENT OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2008

FINDING 05-1 - Segregation of Duties

Condition: The Facility has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that not one individual handles a transaction from its inception to its completion.

Effect: Inadequate segregation of duties could adversely affect the Facility's ability to detect misstatements that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your office staff may not be large enough to assure optimal internal control, it is important that you are aware of this condition. Under this condition, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Response: Management does not plan to respond to the finding, as management believes that it is not possible to implement a cost effective solution at this time.

FINDING 05-3 - Foundation

Condition: The Facility expensed \$168,928 of fundraising costs during the year ended December 31, 2004 on behalf of a local Foundation, which is not allowed under South Dakota Codified Law 6-14-1. During the fiscal year ended December 31, 2007, \$10,000 was repaid leaving an outstanding balance of \$158,928. No payments were made during the year ended December 31, 2008.

Criteria: South Dakota Codified Law 6-14-1 does not authorize the expenditure for costs to generate gifts, bequests, or donations.

Effect: These payments resulted in nonallowable expenditures by the Enterprise Fund.

Recommendations: The Facility should consult with their attorney and work with the Foundation on this matter.

Response: Management is consulting with their attorney and working with the Foundation.

BOWDLE HOSPITAL AND NURSING HOME STATEMENT OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2008

FINDING 06-1 - Financial Reporting

Condition: The Facility does not have an internal control system designed to provide for the preparation of the financial statements in accordance with generally accepted accounting principles.

Criteria: A good system of internal control contemplates the ability on the part of management to prepare complete financial statements which includes all footnote disclosures in accordance with general accepted accounting principles.

Effect: The inability to prepare the financial statements in accordance with generally accepted accounting principles may affect the ability to properly report the Facility's financial position and results of operations.

Recommendations: While we recognize that management may not have the experience and expertise to prepare the financial statements, it is important that you aware of this condition.

Response: Management has requested the auditors to draft the financial statements and accompanying notes to the financial statements in accordance with generally accepted accounting principles.

STATEMENT OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2007

STATUS OF PRIOR AUDIT FINDINGS AND RESPONSES

FINDING 05-1 - Segregation of Duties

Condition: The Facility has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that not one individual handles a transaction from its inception to its completion.

Status: REPEATED

FINDING 05-3 - FOUNDATION

Criteria: South Dakota Codified Law 6-14-1 does not authorize expenditures for purposes of generating gifts, bequests, or donations.

Condition: The Facility paid \$168,928 of fundraising expenses and has an unreimbursed balance of \$158,928 as of December 31, 2008, on behalf of a local Foundation which is not allowed under South Dakota Codified Law 6-14-1.

Status: REPEATED

FINDING 06-1 - Financial Reporting

Criteria: A good system of internal control contemplates the ability on the part of management to prepare complete financial statements which includes all footnote disclosures in accordance with generally accepted accounting principles.

Condition: The Facility does not have an internal control system designed to provide for the preparation of the financial statements in accordance with accounting standards generally accepted in the United States of America.

Status: REPEATED

STATEMENT OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2007

FINDING 07-1 - Reconciliation of U.S. Bank accounts

Condition: The U.S. Bank accounts used to invest funds associated with the certificates of participation had not been reconciled to the general ledger. This also affected the recording of debt payments in the general ledger. This resulted in unexpected differences and unposted general ledger activity in several accounts.

Criteria: A good system of internal accounting control would capture unreconciled differences in these investment accounts.

Status: RESOLVED



The Board of Directors Bowdle Hospital and Nursing Home Bowdle, South Dakota

We have audited the financial statements of Bowdle Hospital and Nursing Home ("Facility") for the year ended December 31, 2008, and have issued our report thereon dated June 2, 2009. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITIES UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter dated March 3, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management or your responsibilities.

As part of our audit, we considered the internal control of Bowdle Hospital and Nursing Home. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Bowdle Hospital and Nursing Home's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not provide an opinion on compliance with such provisions.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing discussed with management and in accordance with our engagement letter to you dated March 3, 2009.

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SIGNIFICANT AUDIT FINDINGS AND CONSIDERATIONS

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of Bowdle Hospital and Nursing Home, we considered the Facility's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control.

Our consideration of internal control was for the limited purpose described in the above paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we noted certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Facility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Facility's internal control.

We consider the following deficiencies to be significant deficiencies in internal control:

Preparation of Financial Statements

We were requested to draft the financial statements and accompanying notes to the financial statements. Bowdle Hospital and Nursing Home does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. The guidance in Statement of Auditing Standards No. 112, Communicating Internal Control Related Matters Identified in an Audit, requires us to communicate this matter to those charged with governance. This circumstance is not unusual in an Organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Limited Size of Office Staff

It is desirable, from a standpoint of good internal control, that the functions of execution of transactions, recording of transactions and accountability for assets be performed by different individuals. We realize that, in an Organization of your size, complete segregation of duties is not possible; however, we bring this to your attention as a matter of record.

In determining how to eliminate the lack of segregation of duties, management must weigh the costs of any proposed changes against the expected benefits. In lieu of segregation of duties, another effective program to provide control is for management to be involved in the control procedures available. Management involvement through the review of reconciliation procedures is an effective control to ensure these procedures are being properly completed on a timely basis.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control. We do not believe that the significant deficiencies noted above constitute material weaknesses.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Bowdle Hospital and Nursing Home are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Facility during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables, the amounts owed to or receivable from third-party payors, and depreciation expense.

<u>Allowance for Contractuals and Doubtful Accounts</u> – Management's estimate of the allowance for contractuals and doubtful accounts is based on historical loss levels and an analysis of the collectibility of individual accounts.

<u>Estimated Third Party Payor Settlements</u> – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

<u>Depreciation Expense</u> – Management's estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop the estimates related to the collectibility of patient receivables, amounts either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following significant misstatements were detected as a result of audit procedures and have been corrected by management:

Record additional provision for bad debts	\$ (35,000)
Adjust unpaid salaries at year end	(25,074)
Reclassify payments made on capital leases and loans	14,973
Adjust contractual adjustments for third party payors	11,357
Adjust inventory at year end	(10,445)
Adjust depreciation expense to year end schedule	(10,418)
Record additional interest expense	(9,503)
Record capital grants	5,000
Adjust accounts payable at year end	9,640
Other adjustments	 3,413
Change in Net assets	 (46,057)

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 2, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Facility's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Facility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We would like to bring the following matters to your attention:

- 1. Our audit work disclosed that the accounts receivable balance includes a large amount of past due accounts. As of December 31, 2008 \$508,140 or 52% of total receivables were over 120 days old. Failure to collect receivables promptly creates hidden expenses in that cash flow is reduced. Also, the older a balance gets, the more difficult it is to collect. To improve accounts receivable collection, we recommend the Facility review the policies and procedures related to accounts receivable billings and collections to determine if procedures can be improved. We also recommend the Facility review those accounts over 120 days to see if any need to be written off.
- 2. The Facility provided \$2 and \$615 of charity care for years ended December 31, 2008 and 2007. Most facilities have a much larger amount of charity care. We suggest the Hospital review its charity care program to determine if those accounts qualifying as charity care are being properly recorded.
- 3. For the years ended June 30, 2008 and 2007, the Facility reported an excess of expenses over revenue of \$180,358 and \$61,863. We suggest the Facility review operations including expenses, charges for services, and collections of accounts receivable to determine if changes can be made to improve operating results. There have been various items in the news related to the current economic picture for health care facilities. Some of the news items have included reports of organizations cutting salaries and services in order to balance their budgets as well as increased amounts of bad debts and charity care. We suggest Bowdle Hospital and nursing home complete this review to improve cash flow and to provide resources for future improvements to its buildings and equipment as well as to support current and potential future programs.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to Jon Kosiak, Jeff Poppen and your staff for the cooperation we received during the course of the audit. We look forward to many years of continued service to the Bowdle Hospital and Nursing Home.

Sioux Falls, South Dakota

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June 2, 2009